

School District Budget Issues

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School Finance Formula Review

Interim Committee

October 5, 2009



School District Budget Issues

- ▣ Ending Balances
- ▣ Deficit Spending
- ▣ School Budget Review Committee
- ▣ Cash Reserves

Ending Balance Definitions

- ❑ Unspent Authorized Budget or Unspent Balance
- ❑ Ending Fund Balance or Unexpended Balance or Secretary's Balance
- ❑ Cash Balance = Cash position at any given time

Unspent Authorized Budget or Unspent Balance

- ❑ Legal General Fund spending authority left at the end of the fiscal year
- ❑ Calculation:
 - Beginning Unspent Balance
 - + Current year spending authority (formula, miscellaneous income & modified allowable growth)
 - General Fund expenditure
 - = Ending Unspent Balance
- ❑ Estimate until year closed
- ❑ If negative, must report to SBRC

Select School District:



Unspent Authorized Budget Report

Iowa Department of Management

November 26, 2008

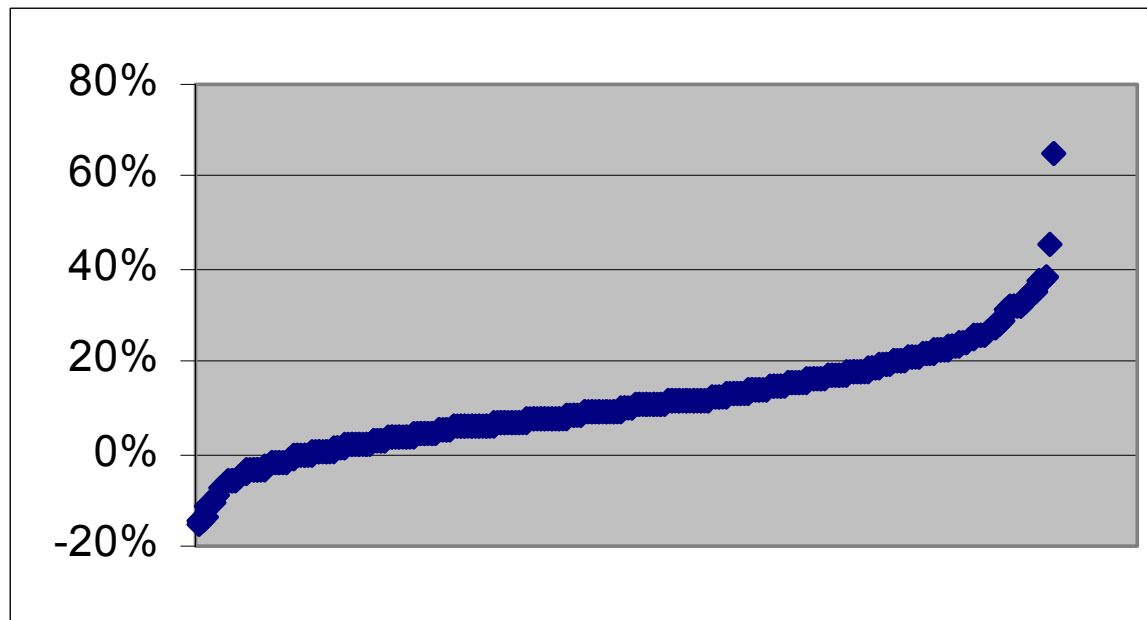
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Ending Fund Balance or Unexpended Balance or Secretary's Balance

- General Fund financial resources available for expenditure after payment of accrued liabilities and recognition of accrued assets
- Measure of available, expendable financial resources
- Reflects ability to finance the legal spending authority
- If negative, financial condition comment in audit
- General Fund ending fund balance is used to calculate limits on Cash Reserve Levy

FY 2008 General Fund Ending Balance as a Percent of Expenditures



- Maximum = 65%
- Minimum = (15%)

Average = 11%

Median = 10%

School District Balances as of June 30, 2008

Total Number of School Districts = 364

		Unspent Authorized Budget Balance	
		Negative	Positive
General Fund Balance	Negative	13 districts	36 districts
	Positive	6 districts	309 districts

Why do Negative Fund Balances Occur?

- ❑ Deficit spending is not illegal
- ❑ ISCAP is readily available
- ❑ Interfund loans are readily available
- ❑ Local Control: Priority for lower property taxes higher than priority for sound financial management

Why do Negative Unspent Balances Occur?

- ❑ Certified & line item budget exceed authorized budget
- ❑ Unanticipated expenditure late in the school year
- ❑ No local procedure for regular monitoring
- ❑ Confusing unspent balance with unexpended balance
- ❑ Accounting errors (AEA flow through in revenues but not expenditures; expenditures coded to special education that are not appropriate; student count errors)

SBRC

- ❑ Designed as budgetary safety valve to counterbalance limit of authorized budget; “managed flexibility”
- ❑ Authority limited to Iowa Code
- ❑ Authority limited to General Fund
- ❑ Authority limited to “unusual & unique”
- ❑ No authority of general applicability except as expressly stated in Iowa Code
- ❑ No money to grant
- ❑ Authority to allow expansion of authorized budget; called “modified allowable growth”

Not all Modified Allowable Growth is Created Equal

- ❑ 1. Request for supplementary programs:
 - ❑ Request authority
 - ❑ Future expenditure in current fiscal year
 - ❑ Future cash reserve levy likely to fund the modified allowable growth
- ❑ 2. Request for Negative Unspent Balance (supplants)
 - ❑ Cash reserves on hand from past levies
 - ❑ Expenditures in past
 - ❑ No direct impact on cash reserve levies related to modified allowable growth

Not all Modified Allowable Growth is Created Equal, II

- ▣ 3. Request for change in accounting/budgeting
 - ▣ Timing issue only—recognition of revenues & expenditures
 - ▣ No change in expenditures
 - ▣ Entirely a hold-harmless provision so that district retains the same unspent balance on the GAAP basis that it would have had on the cash basis
 - ▣ No direct impact on cash reserve levies



SBRC Role in Negative Fund Balances

- ▣ Advisory

Negative Unspent Balance History

Fiscal Year	Number of Districts with Negative Unspent Balances	Number of Repeaters from Previous Three Years
2007-08	19	9
2006-07	16	12
2005-06	13	7
2004-05	13	3
2003-04	4	2

SBRC Role

in Negative Unspent Balance

- ▣ Assigned in Iowa Code
- ▣ District is responsible to monitor its balance
- ▣ District prepares Corrective Action Plan on how it will avoid future Negative Unspent Balances
- ▣ SBRC notifies districts that haven't notified the SBRC that a plan is required
- ▣ DE staff evaluate plans with districts
- ▣ SBRC grants MAG 1-2 years IF plans are sound
- ▣ If plans not sound or sufficient and district is negative 2+ years, the SBRC may recommend a Phase II fiscal visit

Corrective Action Plans

- ▣ Sound plans include:
 - Reduced expenditures
 - Looking at whole grade sharing if feasible
 - Looking at reorganization or dissolution if district enrollment is <300
 - Increased revenues is seldom sufficient

Why Levy for Cash Reserve?

▣ Levy Cash Reserve for Cash Flow

- Pay for planned summer projects
- Eliminate need for borrowing

▣ Levy Cash Reserve to Replenish to Specific Level

- Replenish cash reserves used for ATB cuts that reduce cash but not authority
- Replenish cash reserves used for state aid reductions
- Replenish cash reserves used for unplanned expenditures
- Replenish cash reserves used for new, supplementary programs for which MAG was granted

SBRC Role in Cash Reserve Levies

- ❑ State Appeals Board is available to taxpayers with tax levy concerns
- ❑ SBRC role is to review excessive levies from a financial management perspective
- ❑ Cash reserve limit is based on second year prior information, and unusual or unique circumstances could have caused changes since two years ago

SBRC Role

in Cash Reserve Levy Limits

- ▣ Now: SBRC rules set limit at 25% of expenditures minus unexpended fund balance (3 summer months would be 25% of year); SBRC has flexibility to consider unusual or unique circumstances
- ▣ 2013: Iowa Code sets limit on cash reserve at 20%; No SBRC flexibility

Relationships Between CR Levy, Fund Balance & Unspent Balance

- ❑ Unexpended Fund Balance drives Cash Reserve Levy
- ❑ No direct link between Unspent Balance/Maximum Budget Authority and Cash Reserve Levy
- ❑ Weak link between Fund Balance and Unspent Balance/Maximum Budget Authority

Across the Board (ATB) Cuts, What do Districts Do?

- ❑ ATB cuts reduce cash without reducing authority in the General Fund.
- ❑ 1. Districts with cash on hand to back their authority, generally go on as usual and levy cash reserve to replace the cash used from their reserves.
- ❑ 2. Districts with cash less than authority, generally borrow and levy cash reserve to repay the warrants.
- ❑ In either case, districts may reduce expenditures either because of confusion or because of a desire to keep property taxes low.